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RUEHGP/AMEMBASSY SINGAPORE 7138
RUEHUM/AMEMBASSY ULAANBAATAR 0451
RUEHFK/AMCONSUL FUKUOKA 6742
RUEHGZ/AMCONSUL GUANGZHOU 1365
RUEHHM/AMCONSUL HO CHI MINH 0106
RUEHNH/AMCONSUL NAHA 9127
RUEHOK/AMCONSUL OSAKA KOBE 0408
RUEHKSO/AMCONSUL SAPPORO 7338
RUEHGH/AMCONSUL SHANGHAI 0360
RUEHSH/AMCONSUL SHENYANG 0613
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C O N F I D E N T I A L SECTION 01 OF 03 TOKYO 000753

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DTCC FOR BLUE LANTERN COORDINATOR

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TAGS: [ETTC](#) [KOMC](#) [PGOV](#) [PREL](#) [JA](#)

SUBJECT: MOD EXPRESSES DESIRE TO IMPROVE OVERSIGHT FOR BLUE LANTERN

REF: A. 07 TOKYO 05551
 1B. 07 TOKYO 04831
 1C. 07 TOKYO 04928
 1D. 07 TOKYO 03633
 1E. TOKYO 00066
 1F. MARCH 11
 1G. 2008 TOKYO DAILY ACTIVITY REPORT
 1H. 07 TOKYO 5599
 1I. TOKYO 0728

Classified By: Ambassador J. Thomas Schieffer, Reasons 1.4 (b/d).

11. (C) Summary: Over the past year, Post has observed several worrisome developments related to some small Japanese firms dealing in defense trade, pointing either to their negligence or possible malfeasance. On March 19 Japanese Ministry of Defense (MOD) officials told EconOff they are committed to correcting the problems involving the MOD's effort to maintain control over procurement of critical equipment. Embassy DHS/ICE officials continue to investigate possible wrong-doing among a range of small operators, while the Defense Minister has taken moves to implement improved oversight. End Summary.

12. (C) Post has noted increasing difficulties completing Blue Lantern checks during the past year with some trading companies refusing to provide documentation and MOD units denying access to records. During a March 19 meeting, Air Staff Procurement LtCol Katsuhiko Nishi told EconOff he understands the need for these checks and Aircraft Division Bureau of Finance and Equipment Deputy Director Fumio Yoshioka said he would help the Embassy improve the process to complete Blue Lantern checks. During the meeting with MOD officials EconOff explained recent investigations including open market sale of sniper scopes and an MOD purchase of fake

night vision goggles indicate there is a need to improve vigilance in Japan on this issue.

USML Controlled Sniper Scopes Sold in Public Stores

13. (C) In spring 2007, Foreign Commercial Service (FCS) contacts alerted post to an MOD contract with Tasco, a Japanese trading company, because Tasco did not have a distribution license for the night vision capable sniper scopes described in the contract. EmbOff provided this information to MOD and the contract was subsequently terminated. EconOff later urged Tasco to follow appropriate regulations. In the summer of 2007, MDAO officials found the public sale of these scopes on the Internet in Japan, and EconOff began a series of meetings to find the origin. Two distribution companies told EconOff they purchased the scopes from Tasco. EconOff met with the president and owner of Tasco who told us he had recently fired the two employees linked to the sale of the scopes (Ref B). Although, Japanese police had no interest in pursuing the case, Embassy ICE officials identified an AmCit they believe hand-carried the articles to Japan for re-sale and expect an indictment soon.

Knock-off NVG Sold with Fake Labels

14. (C) Last summer, Embassy FCS contacts alerted Post to an unusually low value on a Night Vision Goggles (NVG) contract on the MOD web site (Ref C). An ICE investigation concluded the 2006 \$370,000 NVG order was packaged with false documentation and labels to make knock-off NVG appear as if

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they were military specification third generation articles. After Post communicated this information to MOD, it was leaked to the media. Last November, the president of Japanese trading company Science Technology Trading (STT) admitted to MOD the NVG were not manufactured by Northrop Grumman as claimed. STT returned all the revenue it received, plus a ten percent penalty. MOD issued a press release stating the Ministry had been deceived. MOD canceled its contract with STT and returned the NVG to STT for shipment back to the U.S. trading company, Fresco. During this time, MOD refused to permit an ICE inspection of products. Customs in New York examined the shipment upon arrival and discovered all the labels on the NVG had been switched from fraudulent Northrop Grumman labels to Auroral Tactical, the original label. Although this anomaly was discovered in 2007, these NVG were originally contracted in early 2006.

15. (C) On December 26, 2006, MOD entered into a second contract with STT to procure an additional 126 sets of NVG. MOD procurement officials signed this contract before they knew the first contract was fraudulent. MOD officials told ICE the fraud committed on the first contract was not sufficient cause to cancel the second contract. Despite sharing this information with Tokyo Metropolitan Police, however, once again, authorities had no interest in opening a criminal investigation.

Company Executives Claim Fraud is Rampant

16. (C) A senior procurment official at Japanese trading company Axe, Inc., Naoya Takeda, alleged to us that STT has a long history of committing fraud against the GOJ and MOD. Late last year, Takeda, a 20-year veteran of Japanese defense contracting, told EconOff the defense contracting climate in Tokyo is so rife with fraud that legitimate business is difficult. The trading company official claimed falsifying documentation and committing fraud against the government is standard procedure for trading companies in Japan.

17. (C) During a March 11 meeting, a logistics company executive told EconOff some Japanese trading companies fabricate invoices to inflate MOD contract values. Ref E

describes an MOD contract with Yuasa Aviation which is nearly twice the cost of the license value. Yuasa executives told EconOff during the Blue Lantern site visit that the high final cost of the MOD contract was necessary to cover expenses for several subcontracts to other trading companies used to procure the articles. The value of the contract with MOD is 67,170,000 yen (about \$670,000 at the current exchange rate), but the license was issued for \$379,000. On March 19, EconOff shared this information with MOD officials and they expressed concern and a desire to follow-up on this case and other cases with similar attributes.

18. (C) Post sees a disproportionate number of Blue Lantern investigations annually because of two factors: the number of trading companies involved in each sale -- sometimes as many as five companies used to complete one contract -- and unusual shipment routing. Ref C is an example of unusual routing where a \$400 purchase of Patriot Missile parts triggered a Blue Lantern inquiry because the parts stopped in Singapore en route to Tokyo. That case included five different companies on the contract to move two dozen parts from Springfield, MO to Tokyo. On March 19 MOD officials also indicated a desire to check into cases with unusual

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routing.

Cleaning Up

19. (C) March 11 media covered an announcement concerning a draft report from an internal MOD project team. The team will recommend not abolishing the use of defense trading firms in the ministry's equipment procurement system despite DefMin Ishiba's previously stated intent to do so. Media note, however, the report highlights the need for MOD to establish an import control division, and indicates that the ministry will hire trading company retirees and other experts to increase internal oversight. MOD will also send seven additional officials to the U.S. to enhance its equipment fact-finding ability. Japanese government contacts note that the report's recommendations are not surprising, and comment that Ishiba's suggestion for an overhaul of the current system is simply not feasible (Ref E and F).

10. (C) During a March 19 meeting, MOD official Yoshioka said he would work with procurement personnel to set up a new system whereby Embassy Blue Lantern checks will be more steadily facilitated. Air Staff Procurement LtCol. Nishi said MOD's bidding process may be inadvertently contributing to the problem. Using the overstock as an example (see Ref G), Nishi said in the past MOD contract request for proposals have required bidding companies to have the parts in stock before bidding on the contract proposal. He felt this practice could be changed. Additionally, MOD may move to a multi-year (vice annual) contract system which would allow them to increased continuity in the flow of parts without providing the impetus for trading companies to pre-stock inventories. With a multi-year contract system, trading companies would know definitively what MOD needs without having to second guess what inventories MOD might require. Subsequently, trading companies would have no need to stock USML items that MOD had not yet contracted.

Comment

11. (C) MOD has been battered in the press over the past year for procurement scandals. In addition to procurement, the unauthorized disclosure of classified information and a recent fatal collision between an Aegis JMSDF vessel and a fishing boat have only added to MOD's woes and its plummeting image among the Japanese public. MOD officials are noticeably sensitive about answering questions regarding their defense article purchases. Post and EAP/J arranged a DDTC briefing for MOFA Second North America Director Noriyuki Shikata during his recent visit to Washington. Post intends to continue to engage MOFA as well as MOD officials to ensure

the security of USML controlled items. MOD's recently expressed commitment to improve their facilitation of the Blue Lantern program is a positive sign.

SCHIEFFER